



USAID INSIGHT

NURTURING BUSINESS DEVELOPMENT IN UKRAINE: TWELVE YEARS OF WORK BRINGS SUCCESS



A glassblower working on a new piece
(Photo: Courtesy of BIZPRO)

Business development in Ukraine has been a USAID priority for well over a decade. Several projects have supported small and medium enterprise (SME) development, the largest and most prominent being NEWBIZNET, which operated from 1994 to 2000, and BIZPRO, which worked from 2000 to 2006. The two programs nurtured SMEs in Ukraine and helped them to develop and grow.

Business skills development and legal/regulatory reform were at the core of the objectives pursued through NEWBIZNET and BIZPRO. As enterprises transitioned, USAID responded as needed. From 1994 through 2003, USAID focused on the basic skills required to operate in a market economy. Beginning in 2004, more sophisticated assistance was provided to help Ukrainian enterprises compete in the global economy.

In 1994, NEWBIZNET began developing basic SME capacity by working with private business service providers (BSPs). The goal was to strengthen existing service providers to help increase SME understanding of

market principles and operations, and foster their use of modern, market-based business management principles. The ultimate goal was for BSPs to be able to assist with business plans, marketing, operations and finance. USAID provided BSPs with subsidies for key staff and facilities, long-term foreign advisors, and upgraded technology. It also trained staff and provided informational support.

By 1999, the SME sector had become more sophisticated as high-level basic services were now available in the market. BIZPRO decided to launch two pilot programs regarding the use of vouchers and work orders to reflect the transition taking place and the demand for services being created within the SME sector. Whereas, earlier USAID's BIZPRO project had expended efforts to develop service providers for SMEs, through these two programs the project actually engaged them on a commercial basis to provide services to SMEs.

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TARGETED STRATEGY LEADS TO SPARKLING SUCCESS

A Ukrainian firm returns from this year's Tendence Lifestyle Trade Fair with \$1 million in new orders

Ukraine's glass industry may be on the verge of a dynamic new chapter in its development if the results that one major Ukrainian glass producer achieved at a European trade fair give any indication. Two years after USAID's BIZPRO project began providing assistance to Ukraine's glass producers, they now are not only finding opportunities to high-light their products to global buyers, but also seeing tangible commercial success.

For the Svitlovodsk SKLO Glass Plant, the 2006 Tendence Lifestyle Trade Fair, held annually in Frankfurt, Germany, offered the company the opportunity to present its wares to a broad array of prospective European and international wholesalers. Buyers rewarded the company with \$1 mln in orders, a considerable leap from last year's figure of \$200,000. This success has been largely attributed to a good product line and meticulous preparation. The fact that Svitlovodsk SKLO met its commitments for all of its 2005 orders also encouraged prospective buyers.

More importantly, by participating in the Tendence Lifestyle Trade Fair for a second consecutive year, Svitlovodsk SKLO persuaded potential partners that this manu-



The Svitlovodsk SKLO delegation discusses new orders with buyers at Ukraine's 2006 Tendence Lifestyle stand. (Photo: Tetiana Dudka)

facturer is a serious player in the art glass market. Ukrainian producers had made their debut at Europe's biggest home furnishings exhibition in 2005. Then, potential buyers expressed interest, but many were reluctant to place orders with companies that they had never worked with before. While the Ukrainian delegation received orders,

most of them were fairly small; buyers wanted to see if their new partners were stable, reliable, and could meet high quality standards.

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UKRAINE DEVELOPS SKILLS TO BE COMPETITIVE

As Ukraine prepares itself for WTO, Ukrainian companies are exploring ways to retain their traditional markets and capture new ones. A key to Ukraine's competitiveness on the global market is the ability to produce goods and services that meet international standards, while offering a friendly business environment to foreign companies who see potential in Ukraine as a new market.

In 2005, the USAID's BIZPRO project, whose objective was to spur business development in Ukraine, completed a unique study called *Ukraine: Competing in the Global Economy – Strategies for Success*. The assessment analyzed Ukraine's overall policy framework for competitive economic performance, and opportunities and challenges in key non-traditional sectors.

The analysis found substantial weaknesses in the regulatory environment, which concurrently led to increases in transaction costs and undermined competitiveness.

Three factors stood out in particular. First, poor policy design and implementation raised the risk for investing and producing. Second, market institutions were generally feeble and often oriented to serving yesterday's economy. And, third, key supporting industries, the financial sector, and information and communication technology in particular, had thus far failed to provide the intermediation and support needed to promote innovation and investment. The appraisal suggested a number of specific actions to address these weaknesses, virtually all of them stressing the need for better public and private sector cooperation.

The analysis also identified some of the most promising economic sectors — not previously given adequate consideration — where even modest technical assistance could help yield significant results. Based on the study, BIZPRO started cooperating with small and medium businesses in



1. Made in Ukraine: The Trademark Défilé event presented Ukrainian apparel brands. (Photo: Tetyana Dudka)



2. Production line of Kashtan, a Kyiv-based apparel manufacturer. (Photo: Courtesy of BIZPRO) 3. Ukrainian vases are widely advertised in the U.S. by the American wholesaler Phillips Collection. (Photo: Courtesy of BIZPRO)

furniture and home furnishings, textiles and apparel, processed fruits and vegetables, tourism, and construction materials.

For each sector, BIZPRO formulated action plans in close cooperation with public and private sector stakeholders. The work started at the enterprise level, and then quickly moved to the sector, and further to the policy/legal level. The BIZPRO-inspired Law on Regulatory Policy in the Sphere of Economic Activity was extensively used as a tool in much of the work done at the policy/legal level.

The BIZPRO project is now coming to a close, but not without results that speak for themselves. First, BIZPRO provided assis-

tance to the Ukrainian government in drafting the Permit System Law, which stipulates the establishment of a mechanism for issuing permits. The law included a requirement to open one-stop shops in the various oblasts of Ukraine, which has been successfully implemented by BIZPRO in 41 Ukrainian municipalities. The streamlined and coordinated permit-issuing process introduced by one-stop shops have resulted in substantial reductions in the time and cost for obtaining permits, as well as reduced permit-related corruption, thus making Ukraine's regulatory environment more competitive and business-friendly.

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ONE-STOP SHOPS: LASTING SUCCESS

One of the goals of USAID's BIZPRO project has been to support the development of permit-issuing one-stop shops (OSS) for businesses. In 2004-2006, BIZPRO helped open 41 one-stop shops in cities throughout Ukraine.

The basic idea behind a one-stop shop is that an entrepreneur only has to visit a single entity to obtain the necessary paperwork in one streamlined and coordinated process, rather than having to go through a labyrinth of government bodies.

One and a half years after the first one-stop shop opened its doors to entrepreneurs in Kupiansk (Kharkiv Oblast) in February 2005, OSSs are a lasting success.

Even as it helped to open one-stop shops, USAID BIZPRO facilitated an impact study to assess their effectiveness. After evaluating nine different permit-issuing procedures in 21 cities, the study concluded that obtaining permits had become easier, cheaper, faster and more transparent.

In Artemivsk (Donetsk Oblast), the time required for obtaining a permit for establishing a trade or service, which is one of the most widely sought, decreased more than 6 times — from 41 days to only 6. In Alchevsk (Luhansk Oblast), the average number of documents needed to obtain a permit for utilization of land for commercial purposes — one of the most burdensome — decreased fourfold, from 21 to a mere 5.

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USAID | UKRAINE

The United States Agency for International Development's (USAID) principal mission in Ukraine is to help the country to complete the transition to a broad-based democracy with a market-oriented economy. USAID assistance focuses on the following areas: **Economic Growth, Democracy and Governance, Health and Social Sector**. Since 1992, the USAID has provided \$1.6 billion worth of technical and humanitarian assistance to Ukraine to further the processes of democratic development, economic restructuring and social sector reform in the region. To obtain additional information about USAID programs in Ukraine please visit the USAID website at: <http://ukraine.usaid.gov> or e-mail omyrtsalo@usaid.gov

Ukraine's Regulatory Policy Law Helps Entrepreneurs

Ukraine remains a country in which various bureaucracies still wield massive power. With Ukraine's huge bureaucracy and the murky legal environment, honest entrepreneurs here often find themselves at the mercy of government workers. Government officials can and do subject businesspeople to extortion and other forms of corruption, and, in general, too often abuse their power.

To help foster transparency and protect private sector rights, USAID's BIZPRO project participated in drafting a new Regulatory Policy Law for Ukraine. The law, which took effect in January 2004, stipulates two crucial steps for making Ukraine's business and legal culture fair and transparent. First, the government should no longer develop laws not accompanied by a regulatory impact analysis (RIA), a study that makes clear how the law will affect the private sector. Second, laws and their accompanying RIAs must be published before they are moved to legislative debate.

This groundbreaking law has already generated some positive results. Recently, for example, a Lviv businessman filed a suit against the Lviv City Council's Executive Committee, accusing it of violating the new law when it imposed water service taxes without either an RIA or public discussion. That businessman won, and the taxes were struck down.

The new law also helped the *Teatralny Hotel* in Zaporizhzhia in a matter with the Zaporizhzhia City Council. The Council, which owns the building the hotel occupies, unexpectedly raised the hotel's rent, without prior warning, public debate or any thought to how the hike might damage the private sector. The hotel took its case to the Zaporizhzhia Commercial Court and also won. Both cases have established important precedents for other Ukrainian courts.

SVITLOVODSK SKLO RECEIVES \$1 MLN IN ORDERS

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"It was symbolically important for us to return to Tendence this year. We demonstrated consistency and a readiness to cooperate with our foreign partners," explained Andrei Lutyi, director of *Svitlovodsk SKLO*.

USAID/BIZPRO had emphasized in its work with Ukrainian glass producers that it was critically important to meet expectations when it helped companies like *Svitlovodsk SKLO* prepare their 2005 orders. This year the Ukrainian art glass producer arrived at Tendence fully prepared. Carefully selected products geared toward European tastes were attractively displayed and advertised. The glass was competitively priced, and – most importantly – *Svitlovodsk* emphasized its willingness to fill orders according to the needs of the customer. This strategy brought many new clients to the Ukrainian booth, but wholesalers satisfied with last year's orders also returned to negotiate new, larger deals.

PROVIDING THE MEANS FOR PRIVATE ENTREPRENEURSHIP

Strolling past the large number of shops and restaurants in downtown Kyiv, one can't help but be amazed at how business has boomed in the last couple years.

Ten years ago, when the country just started recovering from decades of economic stagnation, the first entrepreneurial steps toward a market economy were difficult and sometimes painful. Often even if one had had a brilliant idea, a great mind and hard-working hands, dedication and strong belief in his own success, a lack of

in a timely and convenient manner. Currently, *ProCredit Bank* has established itself as a reliable partner for Ukrainian entrepreneurs, providing high-quality services to a growing customer base. The bank's popularity has increased tremendously, as has the number of loans disbursed. Today over 40 percent of *ProCredit Bank* clients apply for repeat loans, which is the best testament of client trust and loyalty.

In 2006, the bank marked its fifth anniversary, having established 45 branches in 22 cities throughout Ukraine, and having



A Lviv Branch of ProCredit Bank. (Photo: Courtesy of WNISEF)

capital, and access to cheap and reliable financial resources prevented one from starting a business.

USAID undertook to support investment in small and medium sized enterprises through the Western NIS Enterprise Fund (WNISEF), a leading private equity fund established by the U.S. government, understanding well that this would be the best way to help Ukraine develop jobs and create prosperity.

In an effort to satisfy substantial demand for capital, which local banks had failed to provide, in 2001 WNISEF, established the *MicroCredit Bank* (now *ProCredit Bank*), which became the country's first financial institution to fully focus on micro- and small-lending to Ukrainian businesses.

With WNISEF assistance, *ProCredit Bank* secured OPIC funds to expand operations throughout Ukraine. While expansion of its loan portfolio was important to satisfy client demand, the bank also worked to make sure clients received quality services

extended 87,000 loans worth over \$522 million. These numbers represent thousands of people who gained the opportunity to start their own businesses, fulfilling dreams and changing their communities for the better.

"We offered Ukrainian entrepreneurs access to lending services, the demand for which is substantially greater than supply. We are happy that behind each loan there is an interesting business idea or strategy, which is of benefit to specific entrepreneurs and for society in general," commented Natalie A. Jaresko, WNISEF President and CEO.

In the coming years *ProCredit Bank* will continue expanding geographically as well as increasing its client base. This is good news for small businesses in many regions throughout Ukraine where the small business sector is still underserved in quality financial services. Perhaps regional cities in Ukraine will also soon witness a boom in business development similar to what Kyiv has experienced.

Svitlovodsk SKLO secured so much business at Tendence that production for the upcoming year will be focused entirely on those orders. "Now we have to prove that

we can honor our commitments," says Andrei. "USAID/BIZPRO helped us with marketing, but meeting the high expectations of foreign clients is up to us."



NGO APPLIES BUSINESS MODEL TO SOCIAL WORK

If you drove by the small village of Vyhoda just outside of Zhytomyr along the Kyiv-Chop highway, you probably wouldn't give it a second thought other than to note that it was another settlement in decline, full of too many older people and much disaffected



youth. And you would in many ways be right, but life continues here, and in one instance in a most unique way.

In Vyhoda one finds a rehabilitation center for drug abusers run by the *Samaritans Ministries* whose guiding principle is "helping people help themselves." It weans drug addicts off dependency, teaches them valuable life and job skills, and helps them become productive member of society. And it does it by borrowing from business world

concepts and generating income for its centers, 10 of which are scattered throughout Zhytomyr Oblast.

The rehab center is unique in that it is labor intensive; it trains addicts how to work with their hands, from welding, cutting granite to bricklaying and gardening. It also teaches basic life skills, such as personal hygiene, cooking, problem solving, conflict resolution, etc. In other words, the Vyhoda center acts a one-stop shop to deal with the complete spectrum of problems associated with drug dependency, which makes those in recovery more apt to change their lives.



A Decade of USAID Assistance Yields Significant Results

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No less important, BIZPRO guided a process of quick de-regulation on the national level, which was introduced in January 2005 by President Yushchenko. As a result, 9,340 regulatory acts issued at the national level were reviewed. Among them, 5,184 were declared inconsistent with the Law on Regulatory Policy and thus subject to elimination or amendment. Moreover, 66 Presidential decrees were declared inconsistent. As of December 31, 2005, 4,940 regulatory acts issued by executive bodies at the national level of governance were eliminated. At the local level, 5,100 regulatory acts were reviewed. Nearly 35% of them became subject to elimination or amendment.

There have been significant achievements at the sector level as well. BIZPRO's assistance to the tourism cluster in Crimea has resulted in a 160% business increase for Crimean tour operators. Three Ukrainian home furnishings producers have penetrated the U.S. market, their products now catalogued by five American wholesalers. Five Ukrainian furniture and home furnishings producers have increased exports to the European Market by EU400,000.

HISTORY OF BUSINESS DEVELOPMENT: LEGAL AND REGULATORY REFORM

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USAID assistance in the area of business legal and regulatory reform began in 1994 the regions at the most basic level. It started by establishing local support networks, which were simply groups of businesses and organizations that had common goals and/or business interests. These were typically trade organizations, industry support organizations, chambers of commerce, and groups of linked business-es. The goal was to engage them in activities that could improve the local enabling environment.

At this time, associations were very weak and not able fulfill their typical role in a market economy. Therefore, BIZPRO focused on improving their operations and helping them engage in advocacy on a limited basis. It provided operational subsidies, training and advocacy support. It also helped build a Business Association Network to improve cooperation and information exchange among associations. The network grew from 60 initial members to over 600 members today.

In 1998, USAID began limited work at the national level with the newly created State Committee for Enterprise Develop-

ment, which in spring 2000 was reorganized and renamed the State Committee for Regulatory Policy and Entrepreneurship (SCRPE). BIZPRO provided computer equipment, training, study tours, business environment analyses, and national and regional conferences. SCRPE remains alive today and in close cooperation with USAID's BIZPRO program.

Through BIZPRO, USAID also greatly expanded its work on legal and regulatory reform by intensifying work in the regions and using those lessons to help develop the Law on Regulatory Policy in the Sphere of Economic Activity.

Efforts to create one-stop shops (OSSs) for business registration lead to work on permit issuing OSSs and USAID assistance to SCRPE and the Council of Entrepreneurs in the Cabinet of Ministers with the development of the Permit System Law.

At the end of 2003, BIZPRO moved into yet another stage of business development when it designed a three-tier market development strategy aimed at business associations and SMEs and a comprehensive regulatory reform effort that was launched in January 2004.

One-Stop Shops Make Regulatory Environment More Competitive and Business-Friendly

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The cost of obtaining permits has also fallen considerably. In Illychivsk (Odesa Oblast), the cost of obtaining a construction permit decreased from UAH 839 to less than UAH 150. And the number of visits required to permit-issuing authorities before a permit was issued decreased from a stressing 27 visits to various points scattered about the city to a mere three visits to the newly opened one-stop shop.

One-stop shops have also significantly increased entrepreneurs' awareness of permit issuance procedures. For instance, before the one-stop shop in Chuguiv (Kharkiv Oblast) was established, only 12 percent of entrepreneurs of that town considered themselves knowledgeable about existing permit issuing procedures. Now 75 percent of them report that they know all the permit-related information they need.

One-stop shops have also given a serious blow to permit-related corruption. In Rubizhne (Luhansk Oblast), every second entrepreneur (47.4 percent) used to complain that officials elicited bribes for speeding up permit issuance or obtaining permits per se. After the OSS opened, this number fell to slightly over 13 percent.